

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 8821

INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L OTTAWA 0610

E.O. 11652: GDS

TAGS: ETRD, EIND, CA

SUBJ: SASKATCHEWAN TAKEOVER OF POTASH INDUSTRY

REF: STATE 34218

1. ECON COUNSELOR MET WITH SHANNON, DIRECTOR, COMMERCIAL POLICY DIVISION, EXTAFF, ON FEBRUARY 13 AND INFORMED HIM ABOUT TALKS BETWEEN U.S. POTASH FIRMS AND USSR PER INSTRUCTIONS PARA 4 REFTEL. SHANNON DID NOT PROBE FOR FURTHER DETAILS EXCEPT TO QUESTION ECONOMICS OF PURCHASES FROM USSR. ECON COUNSELOR SAID OUR INFO WAS THAT DEAL SEEMED GENERALLY FEASIBLE AND POINTED OUT THAT SINCE POTASH WOULD BE SHIPPED ON VESSELS OTHERWISE RETURNING EMPTY, TRANSPORTATION COSTS WOULD PESUMABLY BE LOW.

2. SHANNON EXPRESSED THANKS FOR INFO WHICH WOULD BE USEFUL TO HIM IN METING HE WOULD BE CHAIRING LATER IN DAY OF INTER-AGENCY GROUP WHICH IS DEVELOPING RESPONSE TO U.S. AIDE MEMOIRE. HE COMMENTED THAT POTENTIAL LOSS OF SIGNIFICANT EXPORT MARKET WOULD BE AN ADDITIONAL FACTOR FOR GOC TO RAISE IN ITS DISCUSSIONS WITH SASKATCHEWAN AUTHORITIES. ECON
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COUNSELOR SAID WE HAD NO OBJECTION TO GOC'S PASSING

INFO TO PROVINCE.

3. SHANNON APOLOGIZED FOR DELAY IN RESPONDING TO AIDE MEMOIRE AND SAID IT WOULD PROBABLY BE SOME TIME YET BEFORE GOC RESPONSE WOULD BE FULLY DEVELOPED. ISSUES ARE EXTREMELY DIFFICULT (TAX LOSSES TO GOC, CONSTITUTIONAL JURISDICTION, IMPACT ON INVESTMENT CLIMATE, INTERESTS OF OTHER CONSUMING PROVINCES) AND UNFORTUNATELY CANNOT BE ENTIRELY SEPARATED FROM OTHER FEDERAL/PROVINCIAL QUESTIONS, NOTABLY DESIRE OF GOC TO OBTAIN PROVINCIAL SUPPORT FOR ITS ANTI-INFLATION PROGRAM. SHANNON SAID HE COULD NOT PREDICT WHEN RESPONSE WOULD BE READY BUT ASSURED ECON COUNSELOR THAT GOC IS GIVING IT PRIORITY ATTENTION.

4. IN RESPONSE TO ECON COUNSELOR'S QUESTION, SHANNON DISCOUNTED PRESS REPORTS WHICH HAVE SUGGESTED THAT PREMIER BLAKENEY IS PROCEEDING CAUTIOUSLY AND MAY BE LOWERING HIS SIGHTS. SHANNON SAID DEVELOPMENTS HAVE BEEN MOVING MORE SLOWLY THAN SOME HAD FEARED BUT GOC HAS NO INDICATION THAT BALKENEY HAS CHANGED HIS BASIC INTENTIONS.

5. AGATTACHE ALSO HAD OPPORTUNITY AT INFORMAL LUNCHEON MEETING TO PASS INFO RE TALKS WITH USSR TO DAWSON, CHIEF, PETROLEUM AND INDUSTRIAL CHEMICALS DIVISION, ITC , EMPHASIZING THAT USG NOT DIRECTLY INVOLVED IN TALKS AND OUR PURPOSE IN INFORMING GOC WAS TO BE SURE CANADIANS HEARD REPORT FROM US FIRST. DAWSON WAS APPRECIATIVE. HE WAS NOT SURPRISED THAT U.S. COMMERCIAL INTERESTS WERE SEEKING ALTERNATIVE SOURCES OF SUPPLY.

6. DAWSON SAID HE WAS EMBARRASSED AT DELAY IN ANSWERING U.S. AIDE-MEMOIRE. HE INDICATED ITC WANTS TO TAKE STRONG STAND AGAINST EXPROPRIATION BUT IT NOT GETTING MUCH SUPPORT FROM OTHERS. FEDERAL LEADERS HE SAID, WISH TO AVOID RIPPLING PROVINCIAL WATERS.

7. COMMENT: IN LIGHT OF IMPLICATION IN STATEMENTS OF BOTH SHANNON AND DAWSON THAT GOC FINDING IT DIFFICULT TO CONFRONT SASKATCHEWAN ON POTASH ISSUE, EMBASSY BELIEVES OUR NOTIFICATION REGARDING USSR
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TALKS WAS TIMELY AND HOPEUFLLY WILL BOLSTER GOC RESOLVE.
ENDERS

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